WORKING CAPITAL FUND

U.S. DEPARTMENT OF ENERGY

Fiscal Year 1999 Mid-Year Report

April 1999

April 14, 1999

WORKING CAPITAL FUND

FY 1999 Mid-Year Quarter Report: Summary

I. Relation of Earnings to Expenses

- Each business is expected to achieve a balance between annual 'earnings' (billings to customers pursuant to Board-approved pricing policies) and 'expenses' (accrued contractual costs adjusted for depreciation, inventory changes, and related business-type transactions).

- Overall, the Fund broke even in the first half of FY 1999, with net earnings of $0.2 million on the basis of over $40 million in earnings. (Table I). This reflects a rebalancing from the first quarter, which had $0.6 million in net earnings on the basis of $20 million in total earnings.

	FY 1999 Midyear Results , in Millions		
TABLE I			
Business Line	Midyear Earnings	Midyear Business Expenses	Midyear Net
Supplies	$1.6	$1.5	$0.1
Mail	$0.8	$0.8	($0.0)
Copying	$1.2	$0.8	$0.4
Printing/Graphics	$1.6	$1.6	$0.0
Building Occupancy	$27.7	$28.0	($0.3)
Electronic Services	$0.4	$0.5	($0.0)
Telephones	$3.2	$3.3	($0.1)
Desktop	$0.8	$0.7	$0.1
Network	$1.5	$1.6	($0.1)
Contract Closeout	$0.3	$0.3	$0.0
Payroll & Personnel	$1.0	$0.9	$0.1
EIS	$0.1	$0.1	($0.0)
TOTAL	**$40.3**	**$40.1**	**$0.2**

II. Relation of Customer Payments to Anticipated Customer Billings

" Obligation authority for Fund businesses is derived from customer advance payments for services. The Board has adopted procedures calling for customers to make full-year advance payments into the Fund.

" By March, we had collected 95% of the estimated $80.3 million in FY 1999 annual revenues. This is identical to the 95% collection rate for the first half of FY 1998, so aggregate collections do not appear to be a problem in FY 1999. (Table II)

" Virtually all outstanding payments ($3.8 million of the $3.9 million total) are for building occupancy, and staff will contact customer organizations to ensure collection in the coming quarter.

WORKING CAPITAL FUND			
	FY 1999 Midyear Results, in Millions		
TABLE II			
Business Line	Advances as of Second Quarter	Anticipated Full Year	% Collected
Supplies	$2.7	$3.0	89%
Mail	$2.0	$1.9	104%
Copying	$2.5	$2.4	106%
Printing/Graphics	$3.7	$3.2	114%
Building Occupancy	$51.5	$55.3	93%
Electronic Services	$0.9	$0.9	100%
Telephones	$6.0	$6.4	95%
Desktop	$1.4	$1.3	109%
Network	$3.0	$3.1	97%
Contract Closeout	$0.7	$0.6	109%
Payroll & Personnel	$2.0	$2.1	96%
EIS	$0.0	$0.1	14%
TOTAL	**$76.4**	**$80.3**	**95%**

III. Relation of Payments to Obligations by Business Line

- o There have been no violations of administrative control of funds procedures by WCF business lines.

- o As shown in Table III, funds available exceeded obligations by an estimated $40 million by the end of the first half. The rate of obligation is on track with annualized estimates, and the unobligated balance is in line with the $38 million available at this point in FY 1998.

WORKING CAPITAL FUND					
	FY 1999 Mid-Year Results, in Millions				
TABLE III					
Business Line	Unobligated Balance 10/98	Current Year Customer Advances	Total Available	Midyear Obligations	Balance 4/1/99
Supplies	$1.4	$2.2	$3.6	$1.4	$2.2
Mail	$0.8	$1.6	$2.5	$0.7	$1.8
Copying	$1.0	$2.3	$3.3	$1.3	$2.0
Printing/Graphics	$0.1	$3.1	$3.2	$1.3	$1.9
Building Occupancy	$0.7	$51.2	$51.9	$25.6	$26.3
Electronic Services	$0.0	$0.9	$0.9	$0.3	$0.6
Telephones	$0.1	$5.4	$5.6	$4.9	$0.6
Desktop	$0.3	$1.2	$1.5	$1.2	$0.3
Network	$0.0	$2.7	$2.8	$2.4	$0.4
Contract Closeout	$0.0	$0.5	$0.5	$0.0	$0.5
Payroll & Personnel	$0.0	$1.9	$2.0	$0.6	$1.4
EIS	$0.0	$0.0	$0.0	$0.1	($0.1)
TOTAL	**$4.5**	**$73.3**	**$77.7**	**$39.8**	**$38.0**

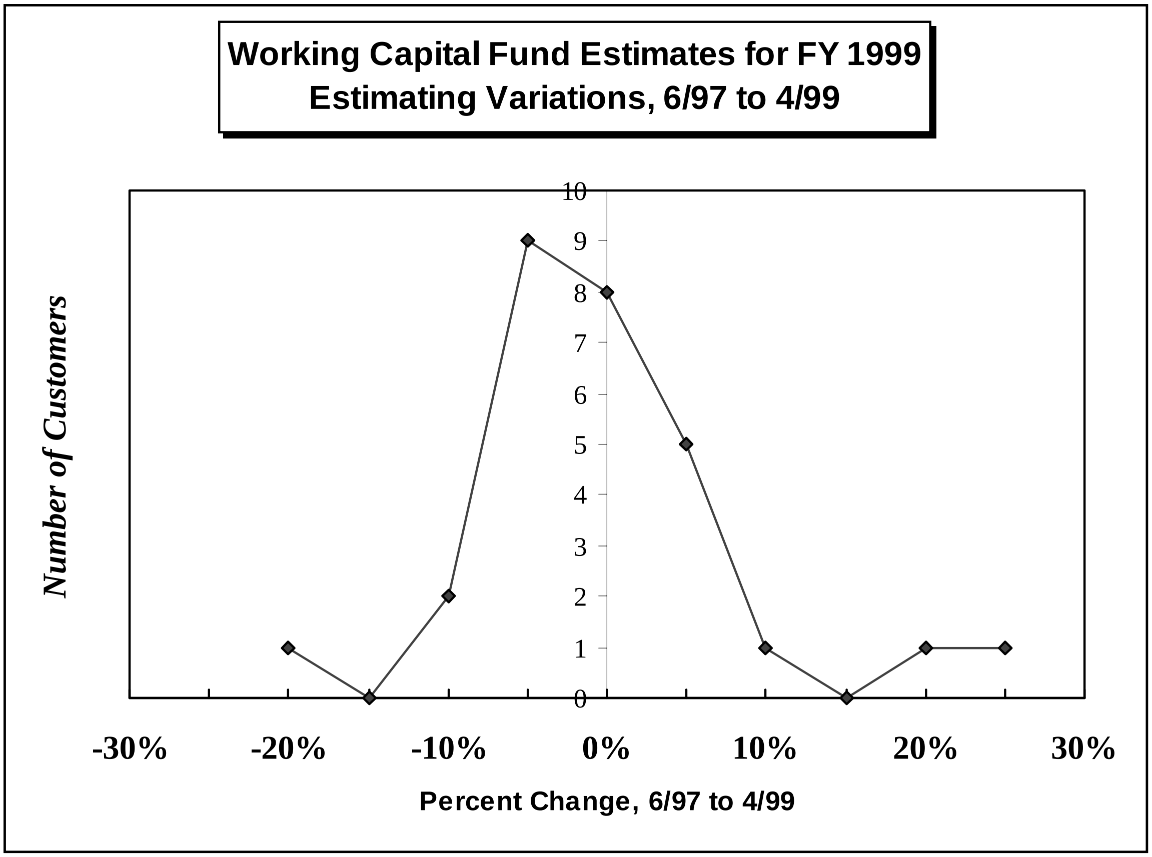
IV. Changes in Budget Estimates by Business Line and Customer

- In FY 1999, the accuracy of the WCF budget estimates appears to have improved over FY 1998. As set forth in the table below, there has been less than 1% change in the aggregate FY 1999 estimates since they were developed in June of 1997.

FY 1999 Budget Estimates for WCF Businesses[1]		
Date	Process	FY 1999 Billing Estimate ($Millions)
June 1997	FY99 Corporate Review	$80.8
December 1997	FY99 Congressional Budget	$80.7
May 1998	FY 2000 Corporate Review	$80.9
December 1998	FY 2000 Congressional Budget	$80.5
April 1999	March bill	$80.3

- There was more fluctuation in the estimates at the individual customer level than in the aggregate estimate. The distribution of these estimating variations, expressed as percentage changes from the FY 1999 Corporate review to the April 1999 estimates in the March bill. Six customers had estimating variances outside the 10% range (positive or negative). This was primarily due to reorganization (Intelligence and Counterintelligence did not exist when the estimates were made) and to special cases such as Naval Reactors, FERC, and Power Marketing, where programs do not participate in the full range of Fund services.

[1] This analysis covers "continuing businesses" only; it omits the contract audit business that was removed from the Fund for FY 1998 and the Executive Information System business added to the Fund in FY 1999.



V. <u>Anticipated Need to Change Pricing Policies or Make Substantial Changes in Operating Levels.</u>

- The Fund Manager does not anticipate the need for further pricing policy changes for FY 1999. However, two pricing policy issues have been identified for FY 2000: (i) financing emergency power for Germantown computer facilities; and (ii) improved coverage for telephone system depreciation costs. These matters are being summarized for Board consideration in a separate document.

VI. Financial Management Systems Progress

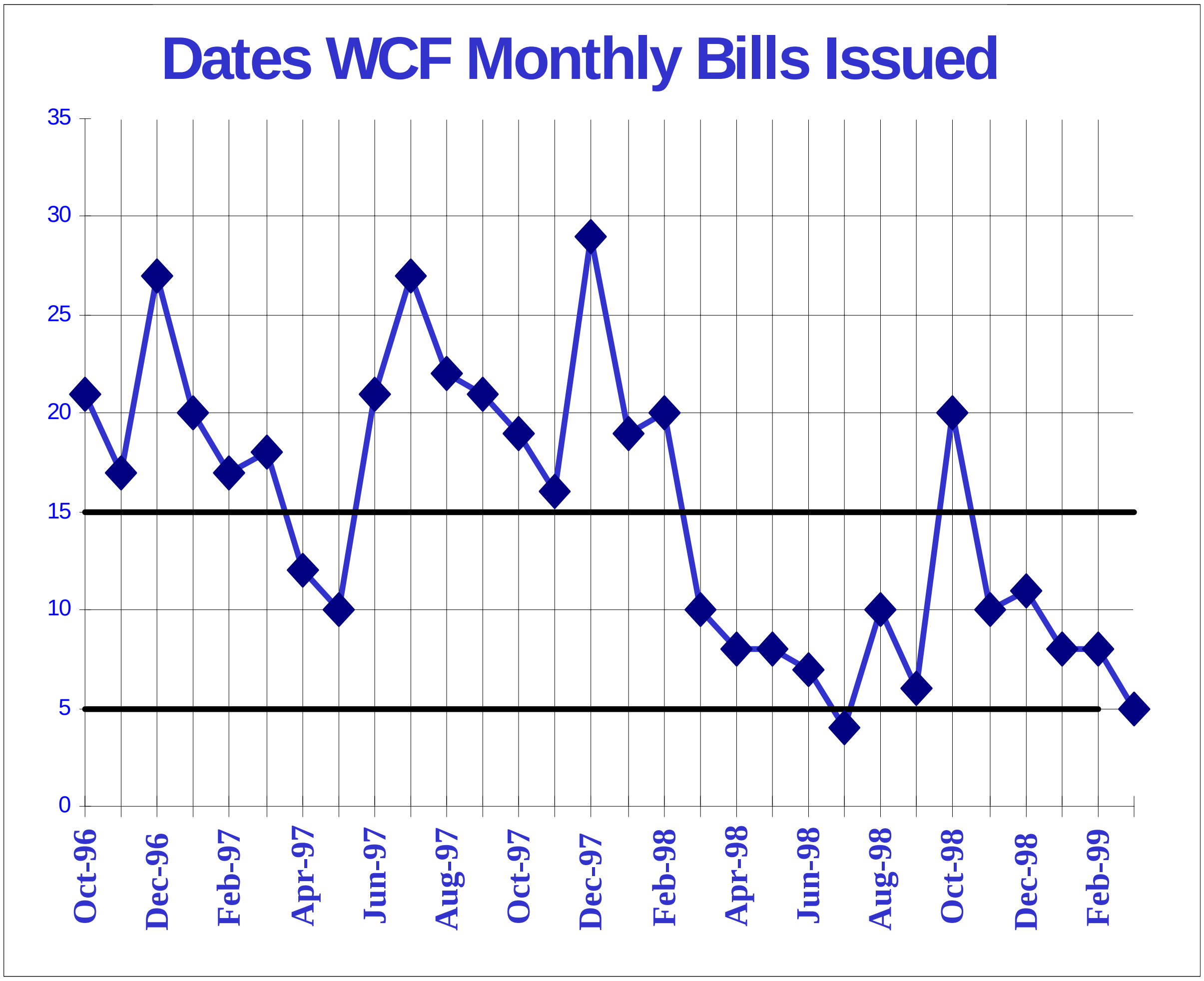
New Working Capital Fund Billing System

- As previously discussed, Management and Administration has been implementing a plan in FY 1999 to replace the *Infinity* billing system with use of readily available desktop spreadsheet and database tools, to reduce the cost and increase the flexibility of the billing activity.

- For the November bill, we used the ACCESS system exclusively, and have started to present billing information for some businesses at a more detailed level, typically at the Office level rather than the Assistant Secretary level.

- As shown in the following graph, following transition between systems and the start of a new fiscal year, we have resumed the progress toward issuance of the bill earlier in the month. Our original goal was to have the WCF bill out in paper form by the middle of the month following service delivery (top solid line). Our current 'stretch' goal is to issue the bill in the first five working days of the month after service delivery so that the costs are entered into DISCAS for each customer for the month of actual service delivery.

- For the March bill, we achieved the "stretch" goal for the first time under the new system. We will be working with customers to identify areas of possible further improvement.



Blue Book Information

- At its December 10, 1998 meeting, the Board approved a consolidated set of financial policies and procedures, for inclusion in the "Guide to Services, Policies, and Procedures" (the Blue Book).

- In addition to issuing the Blue Book in hard copy during December, the Fund staff has created the Working Capital Fund Home Page , linked to the Management and Administration Home Page.

- The WCF Home Page address is http://www.hr.doe.gov/wcf/

- Customers can now access the Blue Book in electronic form on the Home Page, to get general information on the Fund, and to review monthly billing information.

Inspector General Report Follow-On

- The House Energy and Water Appropriations Subcommittee has asked the DOE Inspector General to perform annual audits on the Fund. Audits were performed in 1997 and 1998, and follow-on actions have formed the basis for Working Capital Fund management improvement plans.

1997 IG Report

- For the semiannual DARTS report for March 31, 1999, the Office of Management and Administration has certified the closure of all recommendations in the 1997 IG report (CR-B-98-01).

1998 IG Report

Recommendation #1: HR (now MA) resources managers should implement a process to optimize their use of Fund services.

Status: MA offices are reducing their use of Fund services during FY 1999, and a status report is being made to the Board under separate cover.

Recommendation #2: HR (now MA) should develop procedures to assess effectiveness and efficiency of business lines, including cost comparisons to outside sources.

Status: IG concern was primarily due to continuing losses of Supplies business line. In addition to making changes in several aspects of operating methods to improve financial results, the Director of Administration is undertaking a specific review of the Supplies business line and will provide a progress report at the Board meeting.

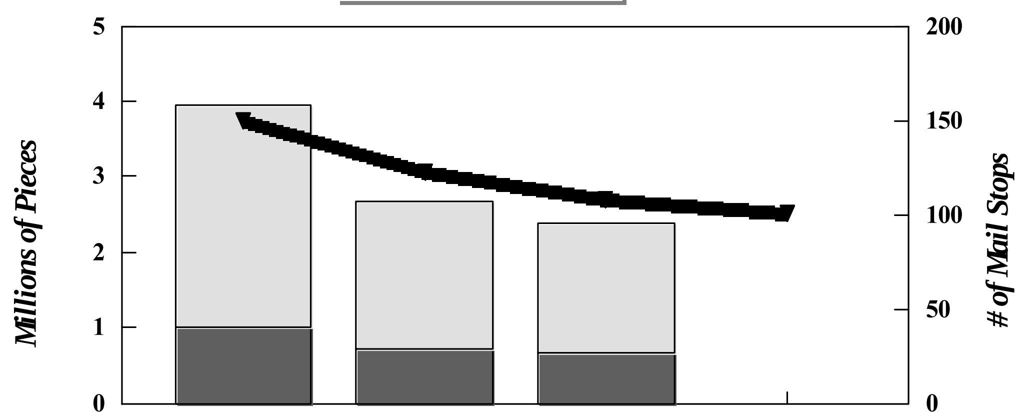
Recommendation #3: Fund Manager and CFO should improve Fund financial systems and suspend acquisition of feeder systems that are not consistent with Fund systems.

> *Status:* *Fund Manager issued guidelines in December 1998 to set criteria and procedures for new financial systems. Apart from the billing system improvement activities outlined above, the primary impact of these guidelines has been to cause a review of a replacement for the current Supplies business line system.*

VII. Status of Operating Efficiency Metrics

Mail: As shown in Figure A, there has been a multiyear trend toward reduced numbers of mail stops, outgoing USPS mail, and mail pieces for internal distribution. Figures B and C report on first quarter FY 1999 trends, showing them to be tracking closely with quarterly patterns in FY 1998.

Figure A
Mail Business Line

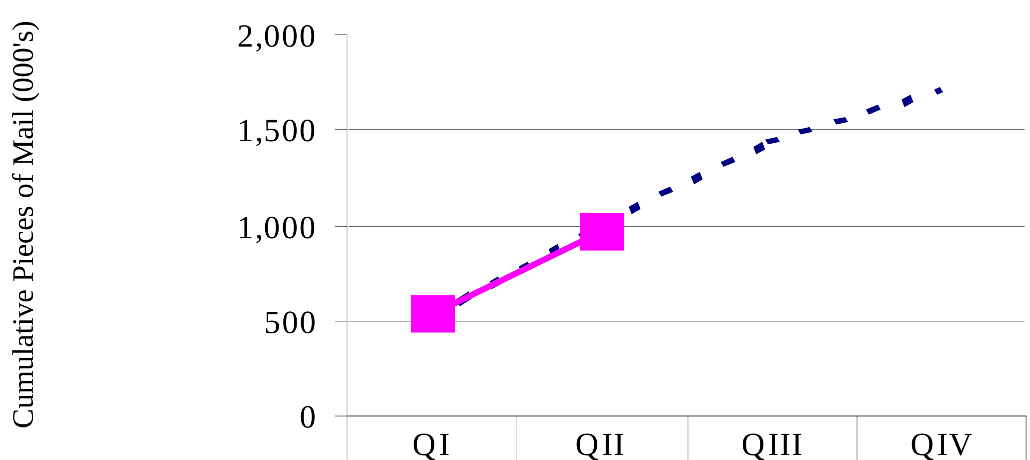


	FY96	FY97	FY98	FY99: Qu2
Outgoing USPS	998	725	663	
Internal DOE	2939	1937	1716	
Mail Stops	150	122	108	101

Figure B - Outgoing US Postal Service

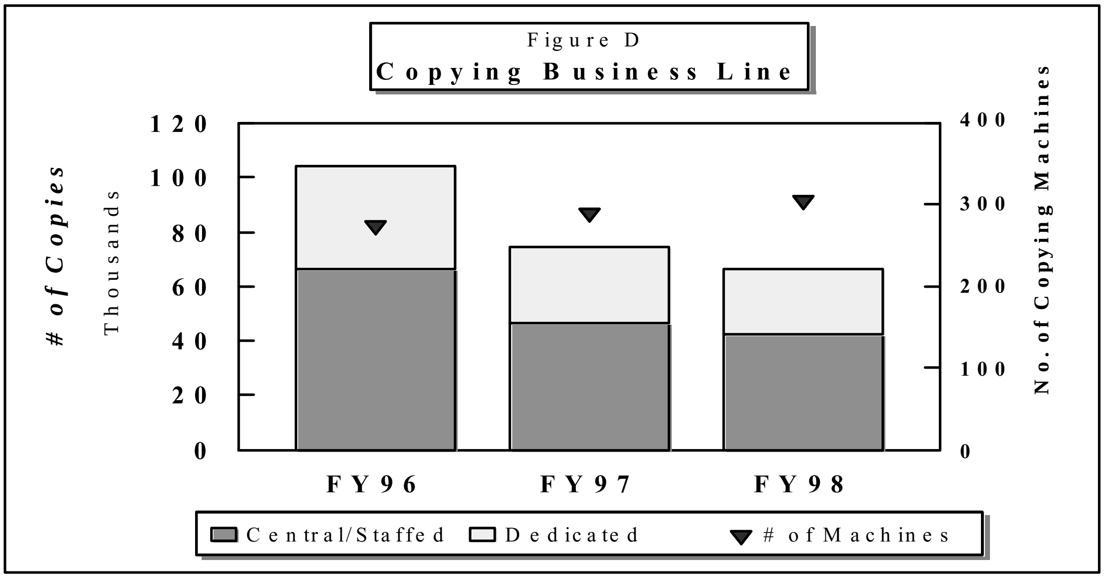
	QI	QII	QIII	QIV
FY 1998	132	242	349	663
FY 1999	145	226		

Figure C - Internal Distribution

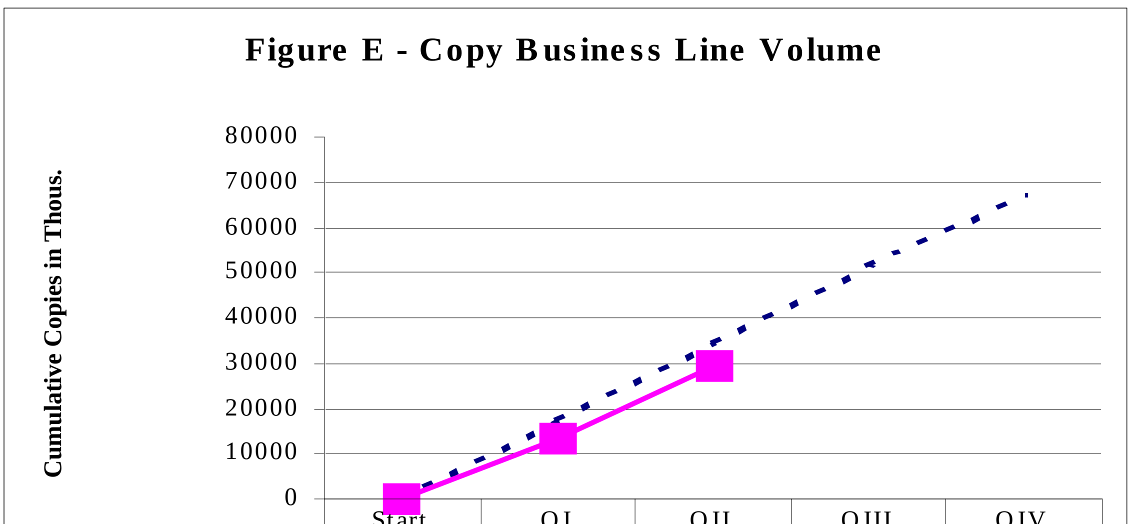


	QI	QII	QIII	QIV
FY 1998	518	1,009	1,444	1,716
FY 1999	534	965		

Copying: As shown in Figure D, there has been a significant reduction in the annual number of copies made in Headquarters since FY 1996. During FY 1997, the rate of reduction was 28%, whereas in FY 1998, the reduction was 11%.



During the first half of FY 1999, as illustrated in Figure E below, there has been a 14% rate of reduction from the same period in FY 1998, somewhat off the 20% first quarter reduction, but in line with prior year trends.



	Start	QI	QII	QIII	QIV
FY 1998	0	17294	34422	51630	67318
FY 1999	0	13456	29540		

Printing: The annual number of printing jobs stabilized in FY 1998 (see Figure F) when taking into account both those financed through the Fund and those funded by direct citation of program funds.

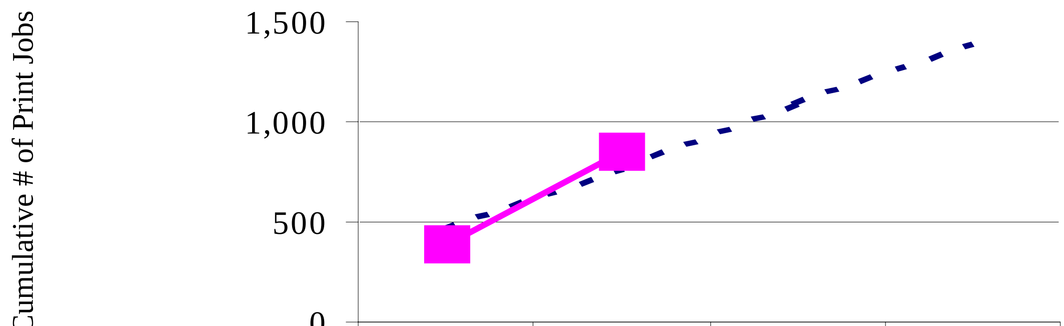
Figure F
Printing Services

	FY 96	FY 97	FY 98
WCF/DA	540	1519	1389
Direct Cite	1108	317	389

Amounts shown for WCF in FY 1996 were paid from the DA Account.

Figure G illustrates that, for the first quarter of FY 1999, the number of print jobs financed through the Fund is running **above** the same period in FY 1998, reversing the first quarter trend.

Figure G - Printing



	QI	QII	QIII	QIV
FY 1998	461	760	1,083	1,389
FY 1999	382	848		

<u>Building Occupancy</u>: As shown in Figure H, the Department has reduced the number of Headquarters office sites since the Fund was created, but square footage occupied has not declined by proportionately large amounts. Figure I provides space utilization on a per-person basis. For Figure I, we have changed the measure of space to omit areas that cannot be occupied.

Figure H
Building Occupancy Trends

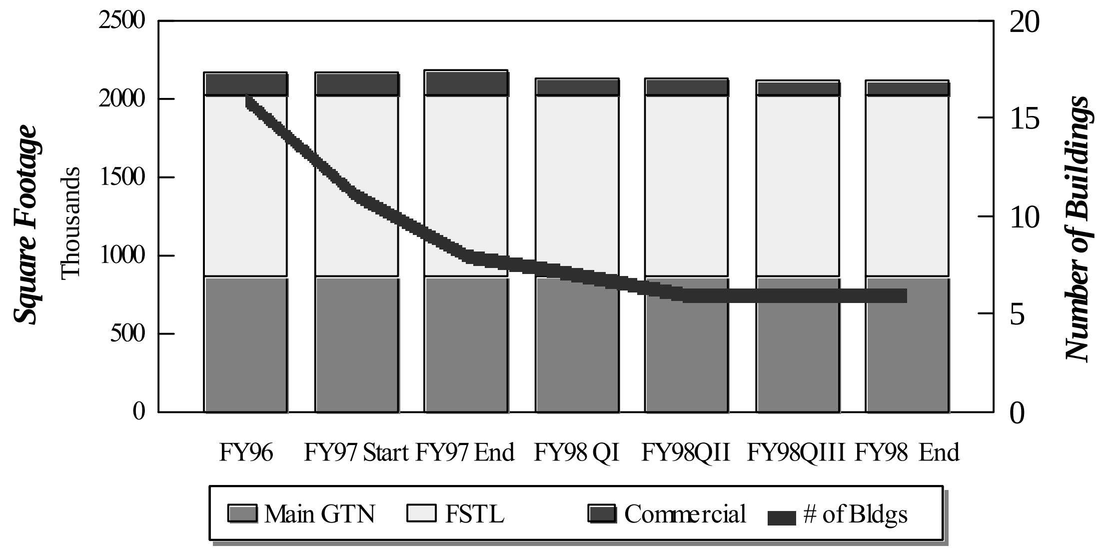
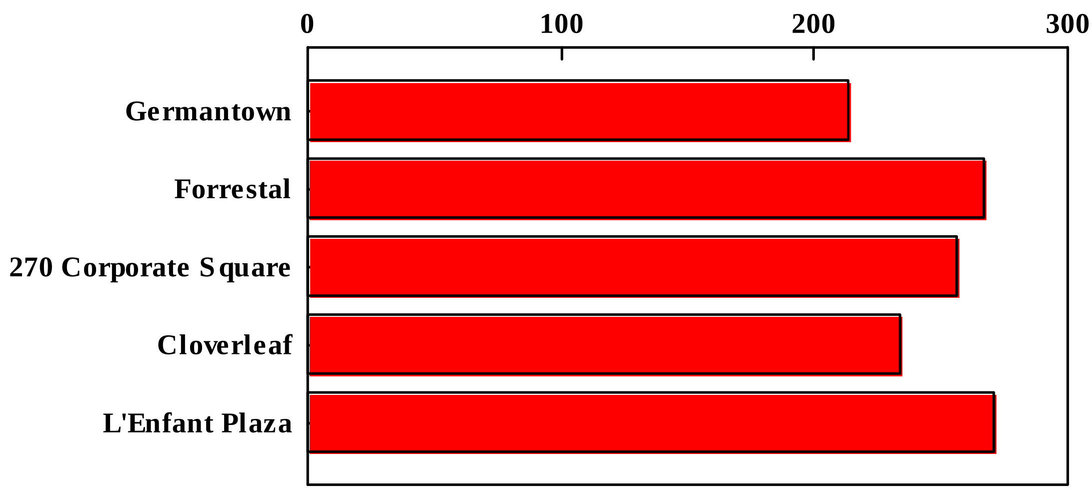
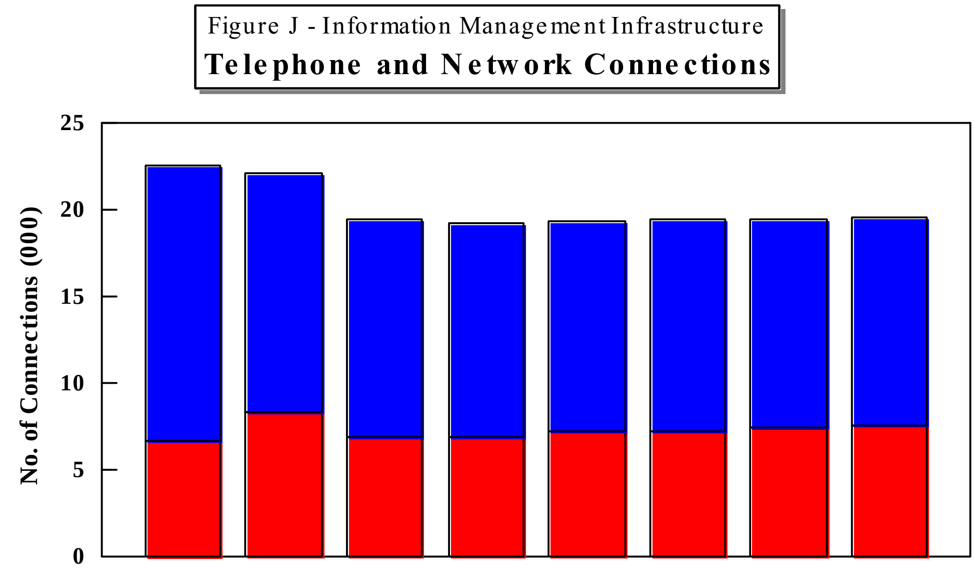


Figure I
Building Occupancy, FY 1999 QII

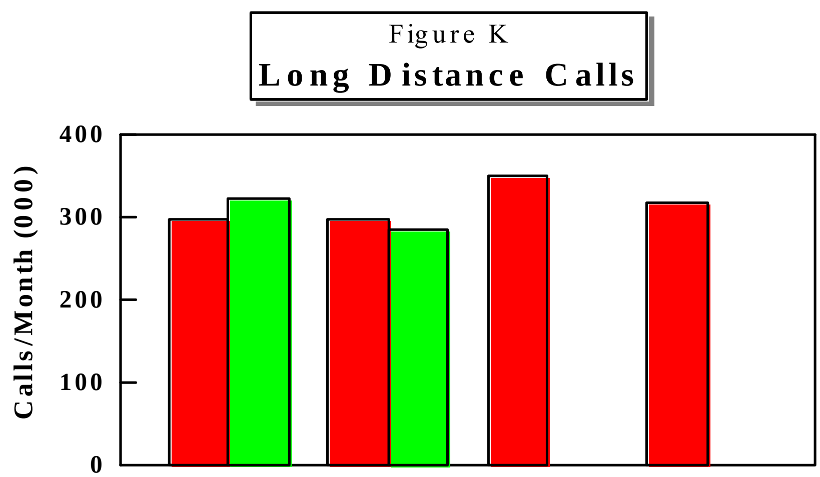


<u>Information Management:</u> As shown in Figure J below, the number of telephone lines has continued to decrease slightly, whereas the number of LAN connections continued to increase during the second quarter of FY 1999. However, it is clear that these infrastructure variables have stabilized since the early years of the Fund.



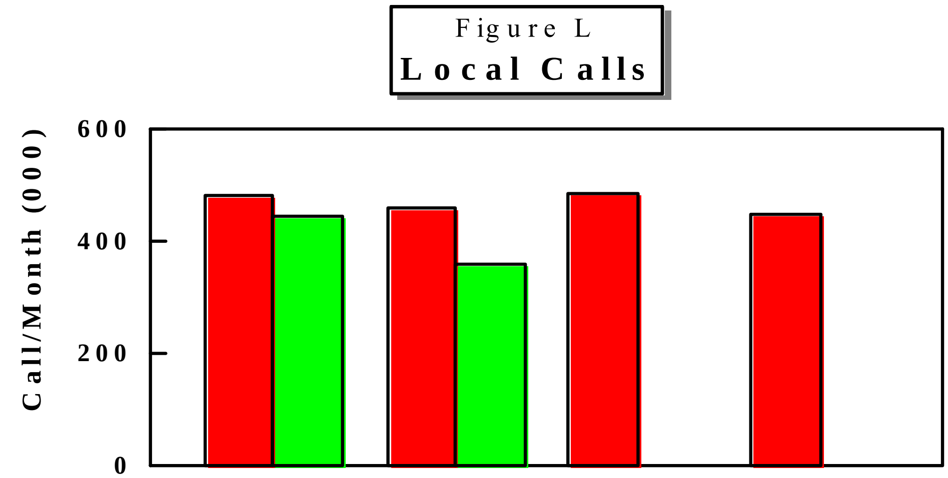
	FY96	FY97	FY98:I	FY98:II	FY98:III	FY98:IV	FY99:I	FY99:II
Network	6650	8375	6943	6961	7207	7241	7470	7548
Telephone	15916	13742	12572	12264	12202	12214	12040	12013

Figure K shows that the long distance calls dropped in the second quarter in absolute terms and relative to FY 1998 quarterly patterns. Cumulatively, FY 1999 long distance calling is running approximately 2% over FY 1998.



	QI	QII	QIII	QIV
FY 98	298	297	351	319
FY 99	324	285		

The number of local (dial 9) calls continued to decline in the second quarter, with a cumulative rate of reduction of 15% from FY 1998 levels.



	Q I	Q II	Q III	Q IV
FY 98	482	458	486	449
FY 99	444	358		

Contract Closeout: The inventory of instruments subject to closeout continued a cyclical pattern of reduction and reached the lowest backlog level since the Fund business was created. In addition to retiring instruments identified by customers, the business line pursued closeout of other instruments using FAR criteria.